Film and Television Tax Credit Program

PROGRESS REPORT

July 2014

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Executive Summary

The California Film & Television Tax Credit Program (Program), enacted in February 2009, is a targeted economic stimulus initiative designed to increase film and television production, jobs and tax revenues in California. The California Film Commission administers the Program and issues an annual report in order to provide the legislature, state government staff and the public with statistical information and insights on California's entertainment production industry, as well as an assessment of the Program's economic benefits to the state.

The following report provides statistics for each fiscal year of the Program, from its launch in July 2009 through June 2014. It also includes spending estimates and project information for the current fiscal year (July 2014 - June 2015). First-time analysis demonstrates the efficacy of the Program by tracking what happens to projects that apply for but are denied tax credits. Finally, the report provides a brief overview of California's entertainment production industry and the growing competition to lure our production jobs and revenue. California's signature industry is at risk as other states and countries build their local production infrastructure and offer guaranteed incentives.

Information specific to this year's report includes:

- A summary of the impact of each fiscal year of the Program based on spending by participating film and TV projects. In the aggregate, including this year's conditionally allocated tax credits, approximately $700 million in tax credits has been allocated (reserved) for eligible projects. This $700 million investment yields **$5.39 billion** in total aggregate direct spending by projects in-state, including an estimated **$1.72 billion** in qualified (below-the-line) wages.

- A first-time analysis of projects that applied to the Program but were denied due to insufficient availability of tax credits. Of those projects that were subsequently produced, a small minority elected to shoot in California without benefit of the Program. Instead, the overwhelming majority of projects denied for California tax credits opted to shoot outside the state in jurisdictions where tax credits are available. From 2010 – 2014, such 'runaway' projects accounted for nearly $2 billion in production spending outside California (note: this figure does not include the economic loss to the state from projects that were either ineligible for the Program or did not bother to apply as they sought incentives elsewhere). This data affirms the efficacy of tax credits in determining where a film or TV project is made.

- A first-time review of television series that relocated to California due to acceptance into the state's tax credit program. Since the launch of the program, six TV series have relocated from other states. Each year the CFC receives applications from many TV shows seeking to relocate; only those selected to receive a credit have moved to California. The report highlights the economic impact of a typical relocating 1-hour TV series, which can be significant throughout the life of the series.

- An updated analysis of scripted television drama series production. While this category has grown substantially in recent years, California has lost both production volume and market share. The number of 1-hour TV series produced rose 73 percent overall from 2005 – 2013, yet the number of such shows produced in California hit a record nine-year low in 2013: California's market share declined from 65% (51 out 79) of all 1-hour TV series produced in 2005 to just 28% (39 out of 137) of all shows in 2013.

- A brief overview of local/regional incentives across California that have been created by cities and counties to attract film and television production. In addition, this section summarizes the economic impact that occurred in many California counties where incentivized productions filmed.

- Under the heading 'The Erosion of Large-Scale Feature Film in California,' this year's report looks at 30 big-budget 'tent-pole' feature films released in 2013. Most were action-adventure films with budgets in excess of $75 million (and usually exceeding $100 million). The report finds that of those 30 'tent-pole' films, only two were filmed primarily in California.

- The report includes data that shows the Program has been highly successful in targeting several types of projects at-risk for runaway production: primarily TV series intended for basic cable, and low- to mid-budget features. However, due to the limited availability of tax credits, the Program is substantially oversubscribed and cannot meet demand. As a result, California continues to lose overall market share, and has in-effect forfeited certain types of productions.

California Film Commission

California Film & Television Tax Credit Program

Progress Report – July 2014

The California Film & Television Tax Credit Program (Program) was enacted in February 2009 as part of a targeted economic stimulus package to increase film and television production spending, jobs and tax revenues in California. This report, updated annually, will summarize the Program's progress from its launch in July 2009 through June 2014, and includes spending estimates and project information for the current fiscal year (July 2014 - June 2015).

New to the report this year is an analysis of projects that applied for the program but were denied due to lack of credits, tracking where they ultimately filmed. As in past years, the report also provides a brief overview of California's entertainment industry and the growing competition for our state's motion picture production revenue and jobs, as well as supplementary background on the expanding landscape for scripted television series production.

The California Film Commission (CFC) administers the Program, which allocates tax credits to eligible film and TV productions that meet specific criteria. The original legislation passed in 2009 established a five-year, $500 million program ($100 million per fiscal year). It was extended for an additional year in September 2011, then extended for two more years in September 2012, for a total of $300 million in additional funding. At the time the Program was conceived, it was designed to make the best use of available funding to target those productions most likely to leave the state due to incentives offered by other states and countries – namely TV series produced for basic cable and low-to mid-budget feature films. For those productions eligible for tax credits, the Program has achieved its goal by keeping many at-risk projects in the state. Despite this success, California has experienced a steady decline since 2009 in projects not eligible for the Program, including television series dramas produced for network or internet distribution, and big-budget feature films.

The 2009 law mandates the California Film Commission to allocate up to $100 million dollars in tax credits each fiscal year - along with any unallocated credits from previous fiscal years - to eligible projects on a first-come, first-served basis through FY 2016-17. If the amount of credits requested by applicants in any fiscal year exceeds the amount authorized for the program ($100 million), credits may be allocated from the succeeding fiscal year. This provision enabled the CFC to allocate two fiscal year's worth of funding in the first year of the program. For all remaining fiscal year allocation periods, including the current fiscal year, the CFC may access only one year's funding. As a result, funding for this program will effectively end in 2015.

Program regulations allow for allocations to be assigned via a lottery if more than one application is received on any given day. At the beginning of each fiscal year, the CFC is flooded with hundreds of applications from independent and studio producers who want to produce their projects in California. The lottery system helps ensure tax credits are distributed as equitably and transparently as possible. Without the lottery, credits would be awarded beginning on the first day of the application period solely on a first-come, first-served basis, which would enable one producer with applications for multiple projects to dominate and receive a disproportionate amount of credits. While the lottery has helped mitigate such problems, it does not allow producers any certainty that credits will be available. Therefore, many producers who want to stay in California do not even bother to apply, electing instead to take their productions out of state where credits are available. Unlike California, other nations and U.S. states, even those with a very substantial volume of production, have a supply of tax credits sufficient to meet growing demand. California's lottery is a unique, albeit imperfect, solution to a unique problem.

Some projects selected initially to receive an allocation of California tax credits ultimately withdraw from the program due to a variety of factors – lack of adequate funding, schedule delays that extend beyond the program's timeline requirements, actor or director availability issues or other causes. When a project withdraws, those credits are reassigned to the project next in line on the waiting list. The CFC continues to manage the waiting list for the remainder of the fiscal year, monitoring the status of productions and tracking any that ultimately move out of state due to incentives offered elsewhere.

The initial allocation is treated as a "reservation" for tax credits. Applicants do not receive their tax credit certificates until they have completed post-production and the CFC has reviewed all required documentation - including CPA audited cost reports. The statute also provides that no tax credits could be issued prior to January 1, 2011.

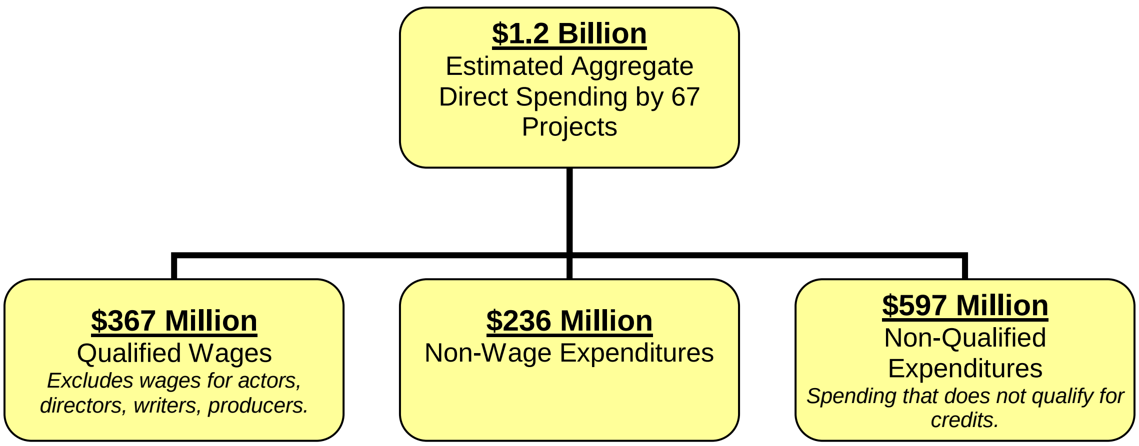
In late 2011, the tax credit program underwent an internal control review - a risk assessment performed by Business, Transportation and Housing Agency management. The assessment involved a review of the Program's lottery procedure, application review process, internal monitoring systems, database, and final document review. The assessment resulted in a report commending the CFC for having the mitigating controls necessary to manage any Program-related risk. Business, Transportation and Housing management recommended creating and posting online a document with application instructions. This new document was posted to the CFC website in January 2012.

The following pages provide information for each year of the program, with details on project spending and other statistics. All figures reflect <u>direct</u> spending. Generally recognized formulas, or multipliers, reflecting total economic impact <u>are not</u> utilized in this report.

I. Program Year 1 Summary (July 2009 – June 2010)

Program regulations were approved in June 2009, and the CFC began accepting applications on July 1, 2009. By the end of July, all $100 million in tax credits from FY 2009-10 was allocated (i.e., "reserved"). Due to the high volume of applications, the CFC then allocated credits from FY 2010-11. By January 2010, all 2010-11 tax credit allocations had been exhausted. For the remainder of the fiscal year (through June 2010), the CFC maintained a waiting list and continued to approve projects seeking tax credits.

While a total of $200 million was available (as referenced on page 5), ultimately only $154 million was allocated to 67 projects for this fiscal year period. Some projects initially allocated credits withdrew and due to the timing of those withdrawals, any remaining credits were rolled over into the next fiscal year's funding. Program Year 1 impact is as follows:



Individuals Hired		
9,000 Crew Members	4,400 Cast Members	108,000 Background Actors

Breakdown by Project Type						
	Feature Films	**TV Movies**	**TV Series**	**Relocating TV Series**	**Mini-Series**	**Total**
Number of Projects	46	13	6	1	1	67
Percentage of Credit Allocation	83 %	3 %	12 %	1 %	1 %	100 %

Independent VS. Non-independent Breakdown		
	Independent	**Non-independent**
Number of Projects	30	37
Percentage of Credit Allocation	11 %	89 %

II. Program Year 2 Summary (July 2010 – June 2011)

On June 1, 2010, the Film Commission began accepting applications for the FY 2011-12 allocations. These funds were available for allocation on July 1, 2010. Seventy applications were received on June 1st and credit allocations (reservations) were issued to 51 projects exhausting the $100 million in funding available for the fiscal year. The demand for tax credits was a mixed blessing in that the Program proved successful in achieving its objectives, but "sold out" in just one day. The CFC continued to receive applications, and by the end of the fiscal year a total of 119 applications were submitted requesting credits. In total, $95 million in tax credits was allocated to 46 projects, as some projects dropped out towards the end of the fiscal year. Program Year 2 impact is as follows:

$830 Million
Estimated Aggregate Direct Spending by 46 Projects

$236 Million
Qualified Wages
Excludes wages for actors, directors, writers, producers.

$161 Million
Non-Wage Expenditures

$433 Million
Non-Qualified Expenditures
Spending that does not qualify for credits.

Individuals Hired		
6,800 Crew Members	6,700 Cast Members	73,000 Background Actors

Breakdown by Project Type

	Feature Films	TV Movies	TV Series	Mini-Series	Total
Number of Projects	21	12	13	0	46
Percentage of Credit Allocation	42 %	6 %	52 %	0 %	100 %

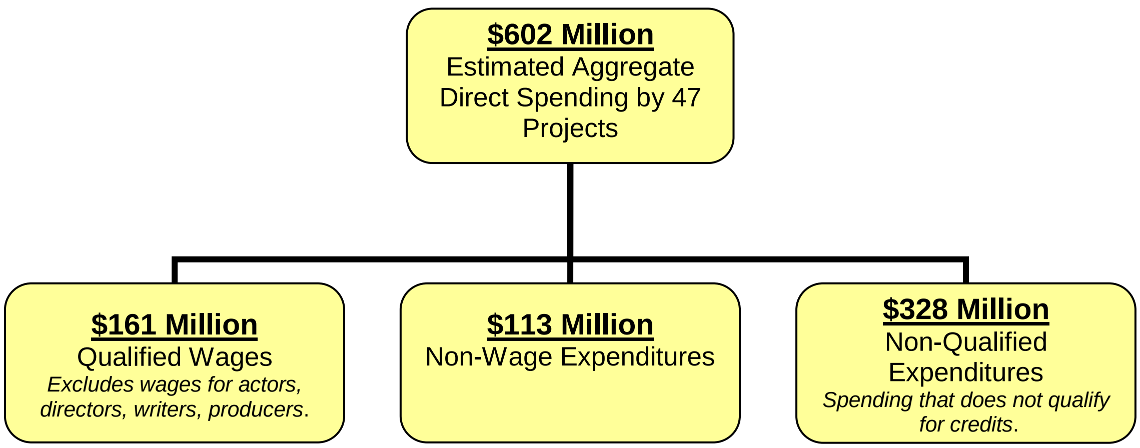
Independent VS. Non-independent Breakdown

	Independent	Non-independent
Number of Projects	25	21
Percentage of Credit Allocation	12 %	88 %

III. Program Year 3 Summary (July 2011 – June 2012)

On June 1, 2011, the Film Commission began accepting applications for FY 2012-13. These funds were available for allocation on July 1, 2011. A total of 176 applications were received on the first day of the application period. On that first day, 29 projects received conditional allocations. This exhausted the $100 million in available funding for Program Year 3, and the remaining projects were placed on the waiting list. Once again, the program was oversubscribed in just one day.

During Program Year 3, several large budget projects withdrew, and their credits were re-assigned to a number of small budget independent projects that were on the waitlist. This resulted in an increase in the total number of projects allocated credits from 29 (on the first day) to 47 by the end of the fiscal year. Ultimately, $69 million in tax credits was allocated, as some projects dropped out towards the end of the fiscal year. The estimated[1] impact for Program Year 3 is as follows:



Individuals Hired		
5,500 Crew Members	3,300 Cast Members	54,000 Background Actors

Breakdown by Project Type

	Feature Films	TV Movies	TV Series	Mini-Series	Total
Number of Projects	26	12	9	0	47
Percentage of Credit Allocation	48 %	8 %	44 %	0 %	100 %

Independent VS. Non-independent Breakdown

	Independent	Non-independent
Number of Projects	32	15
Percentage of Credit Allocation	37 %	63 %

[1] Some Program Year 3 projects have not submitted final documents.

IV. Program Year 4 Summary (July 2012 – June 2013)

On June 1, 2012, the CFC began accepting applications for the FY 2013-14 allocations. The CFC received 322 applications on the first day of the application period -- an 83 percent increase compared to the 176 applications received in 2012. Credit allocations (reservations) were conditionally issued to 27 projects. As in past years, the program was oversubscribed and all funding was exhausted in just one day. The remaining applications were placed on the waiting list.

As noted in previous years, some projects issued an initial allocation withdrew from the Program, thus freeing up corresponding credits for allocation to projects on the waiting list. During Program Year 4, several large budget projects withdrew, and their reserved credits were reassigned to many small budget independent projects. This resulted in an increase in projects from 27 initially to 52 by the end of the fiscal year. Ultimately, $109 million in tax credits was allocated to those 52 projects. (The additional $9 million in credits rolled over from the previous fiscal year.) The preliminary[2] estimated impact for Program Year 4 is as follows:

$856 Million
Estimated Aggregate Direct Spending by 52 Projects

$277 Million
Qualified Wages
Excludes wages for actors, directors, writers, producers.

$221 Million
Non-Wage Expenditures

$358 Million
Non-Qualified Expenditures
Spending that does not qualify for credits.

Individuals Hired		
5,100 Crew Members	3,500 Cast Members	66,000 Background Actors

Breakdown by Project Type

	Feature Films	TV Movies	TV Series	Mini-Series	Total
Number of Projects	26	14	11	1	52
Percentage of Credit Allocation	41 %	6 %	53 %	0 %	100 %

Independent VS. Non-independent Breakdown

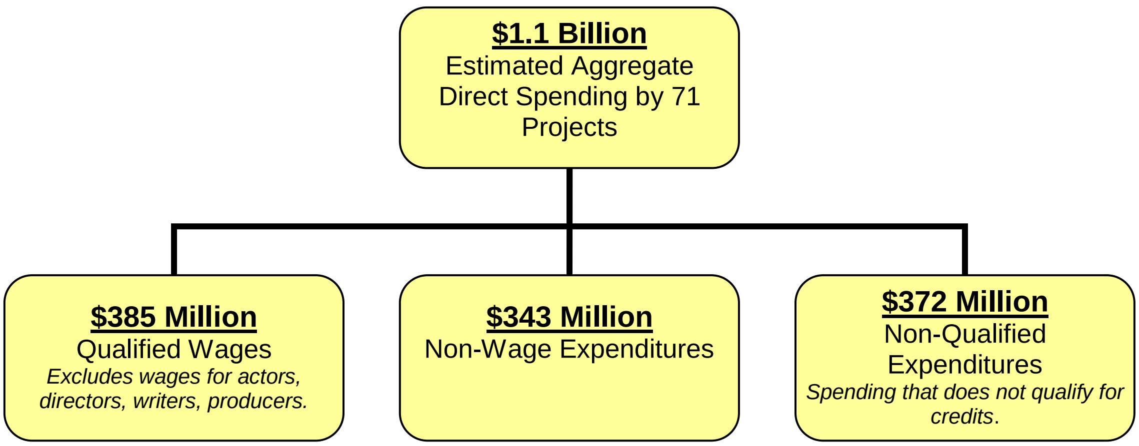
	Independent	Non-independent
Number of Projects	30	22
Percentage of Credit Allocation	19 %	81 %

[2] Some Program Year 4 projects are not yet completed. Data is subject to change.

V. Program Year 5 Summary (July 2013 – June 2014)

Demand for the Program continued to grow, and on June 3, 2013 the CFC began accepting applications for the FY 2014-15 allocations. On that first day, the CFC received 389 applications – a 21 percent increase compared to 322 applications received the previous year.

As in most prior years, some projects issued an initial allocation withdrew from the Program, thus freeing up corresponding credits for allocation to projects on the waiting list. This resulted in an increase in projects from 31 initially to 71 by the end of the fiscal year. As of June 30, 2014, $155 million in tax credits was allocated to 71 projects. (The additional $55 million in credits rolled over from previous fiscal years.) The preliminary[3] estimated impact for Program Year 5 is as follows:



Individuals Hired		
7,500 Crew Members	3,800 Cast Members	96,000 Background Actors

Breakdown by Project Type					
	Feature Films	**TV Movies**	**TV Series**	**Mini-Series**	**Total**
Number of Projects	45	13	13	0	71
Percentage of Credit Allocation	52 %	3 %	45 %	0 %	100 %

Independent VS. Non-independent Breakdown		
	Independent	**Non-independent**
Number of Projects	48	23
Percentage of Credit Allocation	26 %	74 %

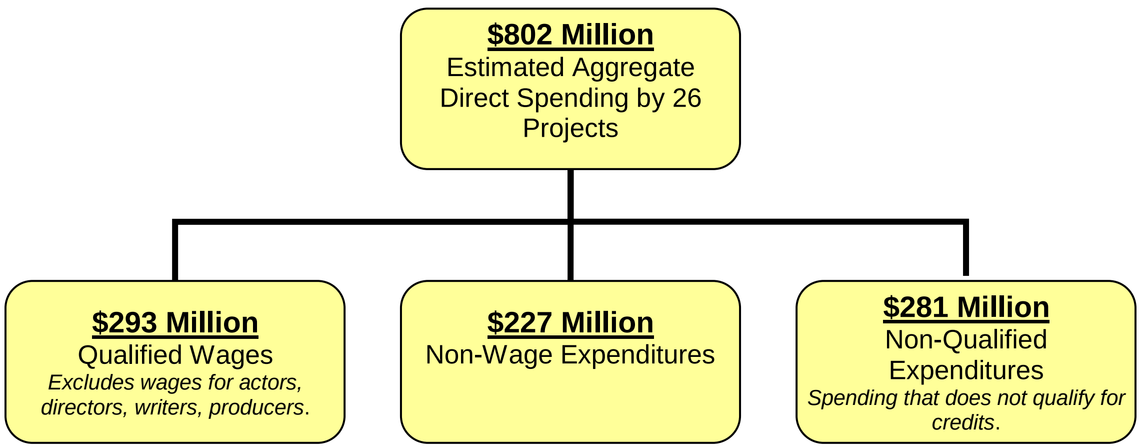
[3] Some Program Year 5 projects are not yet completed, data is subject to change.

VI. Program Year 6 Summary (July 2014 – June 2015)

This year, on June 2, 2014, the CFC began accepting applications for the FY 2014-15 allocations. A record 497 applications were received on the first day of the application period - a 29 percent increase compared to 389 applications received last year. Several additional applications were received in June bringing the total fiscal year submissions to 502.

As expected, the program was oversubscribed with all funding exhausted in a single day. The remaining projects were placed on the waiting list. To date, 476 applications are on the waiting list.

Based on previous years, it is expected that some projects issued an initial allocation will withdraw from the Program, thus freeing up corresponding credits for allocation to projects on the waiting list. As of June 30, 2014, $110 million in tax credits has been allocated conditionally to 26 projects. The preliminary[4] estimated impact for Program Year 5 is as follows:



Individuals Hired		
3,200 Crew Members	2,400 Cast Members	66,000 Background Actors

Breakdown by Project Type

	Feature Films	TV Movies	TV Series	Mini-Series	Total
Number of Projects	11	2	13	0	26
Percentage of Credit Allocation	24 %	1 %	75 %	0 %	100 %

Independent VS. Non-independent Breakdown

	Independent	Non-independent
Number of Projects	11	15
Percentage of Credit Allocation	13 %	87 %

[4] Program Year 6 data is subject to change.

VII. Tax Credit Certificates – Delayed Issuance

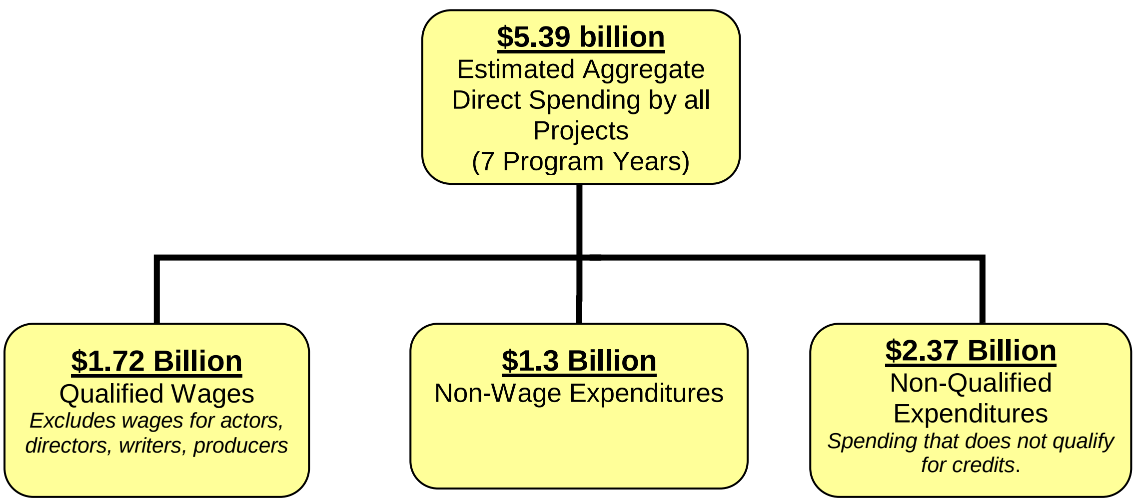
Productions do not receive tax credit certificates (i.e., actual tax credits) until all post-production is completed and the California Film Commission has reviewed all required documentation - including CPA audited cost reports. As per the statute, no credits were issued prior to January 1, 2011. Because of varying production schedules, applicants typically submit their final documentation within 12 – 24 months after they receive their initial allocation letter. Typically, the Film Commission issues the certificates within 20 business days of receiving final documentation.

Total tax credit certificates issued to date: $345,880,895 to 176 applicants.

- As of June 2014, a total of **$38,274,694** was claimed against sales & use taxes.
- As of June 2014, total tax of **$108,082,451** was claimed against income tax liability**.**

VIII. Aggregate Spending and Economic Impact

Including this year's conditionally allocated tax credits, approximately $700 million in tax credits has been allocated (reserved) to eligible film and TV projects, resulting in **$5.39 billion** in total aggregate direct spending by Program projects, including an estimated **$1.72 billion** in qualified (below-the-line) wages.



Individuals Hired – aggregate over 7 years of program		
37,000 Crew Members	24,000 Cast Members	460,000 Background Actors

Average Spending Impact

Each $100 million in tax credit allocation allows an average of 44 projects to participate in the Program (note the number of projects participating in any given year fluctuates depending on individual project budgets). Based on average aggregate spending by projects from each fiscal year to date, each **$100 million** allocated will generate **$770 million** in direct production spending, including **$245 million** in payroll for below-the-line workers. For every $100 million in tax credits allocated, productions will hire an estimated 8,700 cast and crew members and utilize 10,000 vendors. Collectively, they will also employ more than 66,000 daily hires as extras.

It is important to note that the aggregate *non-qualified* estimated spending of $2.37 billion provides an economic boost, as the program does not provide tax credits for this portion of a production's spending (see Page 13). Non-qualified spending typically includes significant payments made to "above-the-line" individuals (actors, producers, directors) who reside in and pay taxes in California.

Independent Reports

<u>Southern California Association of Governments (SCAG)</u>

In March of 2014, the Southern California Association of Governments (SCAG) released a study titled, *California's Film and Television Tax Credit Program: Assessing Its Impact*. The research was conducted by the Economic and Policy Analysis Group at the Los Angeles County Economic Development Corporation. The SCAG report looked at the first three years of program funding and assessed the economic impact during that funding period.

The SCAG report analyzed projects that had been completed and received credit allocations from the first three fiscal years of funding. At the time of the report, 109 projects had received a final tax credit certificate. The estimated total economic and fiscal impacts from those 109 projects are as follows in Table #1:

Economic & Fiscal Impact of Completed Productions (First three years of allocated funding)	
Direct California Expenditures ($ billions) **Qualifying Expenditures**	$1.9 $1.2
Total Economic Impact: Output ($ billions) Employment (jobs) Labor Income ($ billions)	 $4.3 22,300 $1.6
Total fiscal Impact ($ millions) State and local tax revenues	 $247.7

Table # 1 (Source: LAEDC)

The SCAG report measured the economic and fiscal impacts in terms of the current dollar value of the tax credits issued and found that for each dollar of tax credit certificate issued:

- Total economic activity in the state increased by $19.12
- Labor income per dollar tax credit (including to the self-employed) increased by $7.15
- Total state GDP per dollar tax credit increased by $9.48
- $1.11 in tax revenue was returned to state and local governments (ROI)

The report notes that its findings do not include the impact of film-related tourism, which is known to generate significant revenues at all levels of government. People want to visit the places they see on screen.

The full SCAG study can be found at: http://www.scag.ca.gov/Documents/SCAGFilmReport-Final.pdf

Legislative Analyst's Office Report

The Legislative Analyst's Office (LAO) is required by statute to provide a report on the Program by January 2016. LAO analysts prepared a preliminary report in April 2014 to provide background on the entertainment industry and initial observations on the tax credit program.

The report notes that California has a large but declining share of U.S. motion picture employment, with fewer large-budget films produced in California. While California has more than half of the nation's motion picture production jobs, its share of national employment has declined steadily since 2004 – from 65 percent of national production jobs in 2004 to 61 percent in 2012. The report notes that in 2012, the motion picture industry's national average annual wage income was $89,000, compared to an average annual wage income of $49,000 in private-sector jobs for the same period.

In addition, LAO's research indicates that many businesses provide the motion picture industry with specialized equipment/services and employ thousands of California residents. The growth or decline in production in California has an economic effect on these support businesses. One motion picture industry job supports about 2.7 other jobs.

The LAO also reviewed the above mentioned SCAG report, and suggests that the $1.11 of tax credit returned in state and local revenue includes only $0.65 in *state* revenue.

The full LAO report can be found at: http://www.lao.ca.gov/reports/2014/finance/tax-credit/film-tv-credit-043014.pdf

IX. Waitlist Analysis – Status of Projects That Did Not Receive Credits

California's need for a robust Film and Television Tax Credit Program is affirmed by the data. While the state has retained much production as a result of its current program, a large number of projects that apply for the program are denied due to limited funding. The CFC has researched the fate of these projects that are denied and subsequently produced without California tax credits. This analysis covers Program Years 2 through 5 (2010-2014).

The analysis in Table #2 reveals that the overwhelming majority of these projects left California. In fact, the state has lost 84 percent of production spending by projects that applied but were denied. The data suggests that this spending likely would have remained in-state if the program could accommodate all projects that apply.

Table #2 below illustrates that while some productions elect to shoot in California without a tax credit, the majority of projects – especially those with larger budgets – leave. From 2010 – 2014, these 'runaway' projects accounted for nearly $2 billion in production spending outside California -- an economic blow to state and local governments, not to mention the state's below-the-line production workers and businesses that rely on the film/TV production industry. Notably, all these projects were filmed in states or countries where incentives were available.

Note that the CFC is not able to track projects that don't bother to apply for California's film and TV tax credits once all the credits are exhausted, but anecdotal evidence confirms that many other projects leave the state to access incentives available in other regions.

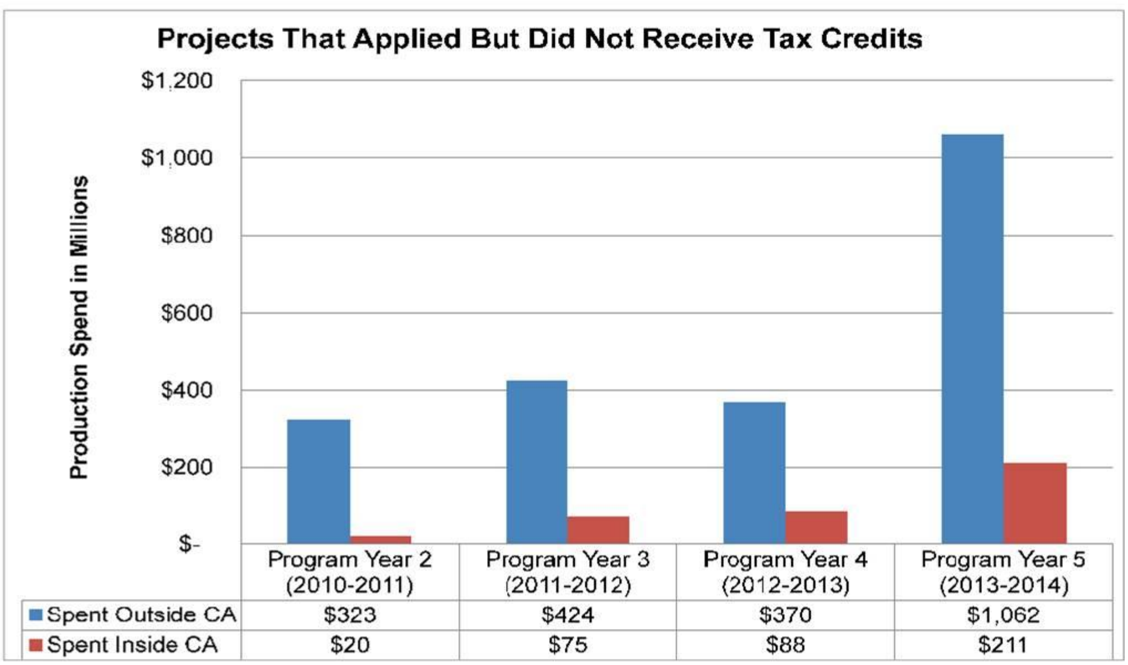


Table # 2 Source: California Film Commission

In Program Year 2, 14 projects, that applied for but did not receive credits, filmed out of state, taking with them $323 million in lost wages and expenditures. Five projects that did not receive credits chose to stay and film in California, spending $20 million in the state (accounting for just six percent of this category's spending).

In Program Year 3, 16 projects, that applied for but did not receive credits, filmed out of state, resulting in an estimated revenue loss of $242 million; the estimated in-state spend from the eight projects that remained was $75 million. (Note: One of the projects that remained in-state was a TV series, *American Horror Story,* that has since relocated to Louisiana. Without this series, California would have retained only $23 million, or <u>seven</u> percent of that year's spending).

In Program Year 4, 21 projects left the state seeking credits elsewhere, denying the state an estimated $370 million in expenditures. The 14 projects that remained spent $88 million in-state, or 19 percent of the total.

Program Year 5 figures continue the trend, with more than $1 billion in production expenditures outside of California by 42 projects shooting in states or countries with incentives, while $211 million (17 percent) was retained with 26 of these projects filming in California.

X. Relocating Television Series

California's tax credit Program allows broader eligibility criteria for TV series that wish to relocate production to California from out of state. These are classified as "relocating TV series," and include scripted 1-hour and half-hour programs for distribution on network, basic cable or premium cable. Since the launch of the Program in 2009, the following series have relocated to California: *Important Things with Demetri Martin* (from New York), *Torchwood* (from U.K.), *Body of Proof* (from Rhode Island), *Teen Wolf* (from Georgia), *Let's Stay Together* (from Georgia) and *Being Mary Jane* (also from Georgia).

Each year, the CFC receives applications for many TV shows hoping to relocate. Since the Program launched, only those that have received credits have moved to California.

This year, the CFC received nine applications from TV series hoping to relocate from other locations such as Georgia, Vancouver, Canada, North Carolina, and Louisiana. Only one, *Being Mary Jane,* was selected to receive a tax credit and is now planning to move this year (in this case from Atlanta, Georgia to Los Angeles). The remaining eight series are on the waitlist and do not plan to relocate without a tax credit. Moving an established TV series is costly and requires detailed advanced planning to dismantle, transport and rebuild sets, relocate cast members, find comparable locations, etc. all within a tight time-frame. On the plus side for California, when a show relocates here the economic impact can be significant throughout the life of the series.

Another series that relocated from Georgia is *Teen Wolf,* which received an allocation and moved to California during its third season, the Program's 4th year. This series is estimated to generate nearly **$162 million** in direct production spending for seasons 3 through 5.

Teen Wolf	**Season 3**	**Season 4**	**Season 5**
# of Episodes	24	12	24
Total CA Spend	$60 million	$34 million	$68 million
Total Qualified Wages	$24 million	$15 million	$31 million
Cast & Crew Jobs	146	150	150

Table # 3 **Note: Seasons 1 and 2 were filmed in Atlanta, Georgia.**

XI. Statewide Production Trends

The California Film Commission tracks the number of days filmed on location statewide by collecting data from many of our regional film offices (data does not include days filmed on certified sound stages, where permits are not required). Table #4 provides a snapshot of filming days in California since 2008 (the first year this data was consistently available).

Feature film days show a steady increase (36%) in California since its 6-year low point in 2009 (the year the Program launched) but remains 5% below the number of feature filming days in 2008. TV filming days increased 5% since 2008 but grew 42% since the 6-year low in 2010.

It is difficult to assess how much of the growth in these categories is attributable to tax credit program projects due to variations in the data collected from jurisdictions across the state.

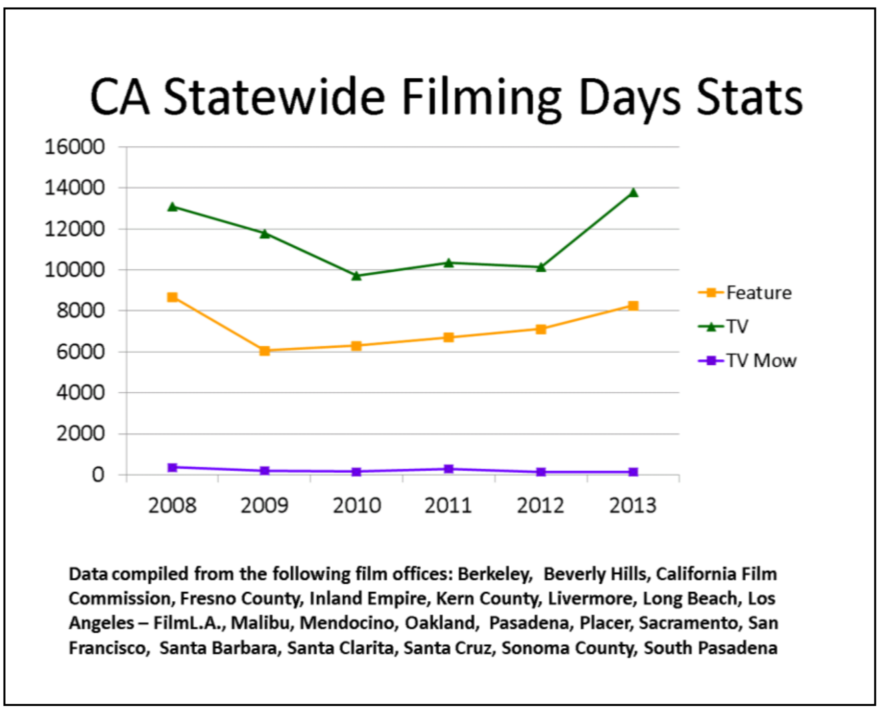


Table # 4 Source: California Film Commission

Television Drama Production – Recent Trends

The Film and Television Tax Credit Program limits eligibility for TV to those 1-hour series produced for distribution on basic cable. Network and premium cable series are not eligible for the Program, unless the series is relocating from out of state (see page 17).

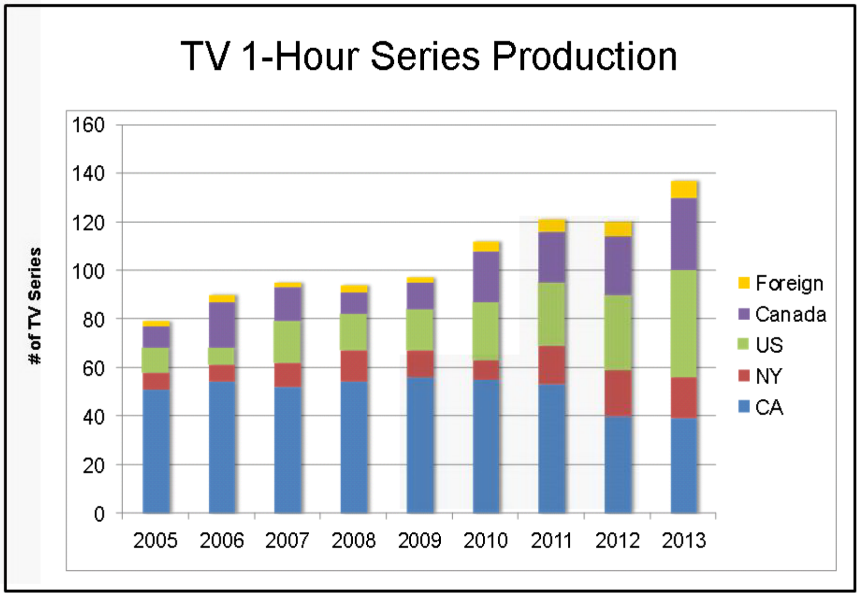


Table # 5 Source: California Film Commission

An analysis of 1-hour TV series from 2005 – 2013 reveals steady growth in the number of series produced, from a total of 79 shows in 2005 to 137 in 2013 – a 73% increase. At the same time, the number of 1-hour TV series produced in California hit a record nine-year low, with just 39 out of 137 choosing to film in state.

California's market share declined from 65% of all 1-hour TV series produced in 2005 to just 28% of all such shows produced in 2013 -- **a market share decline of nearly 60%.** (Table #5)

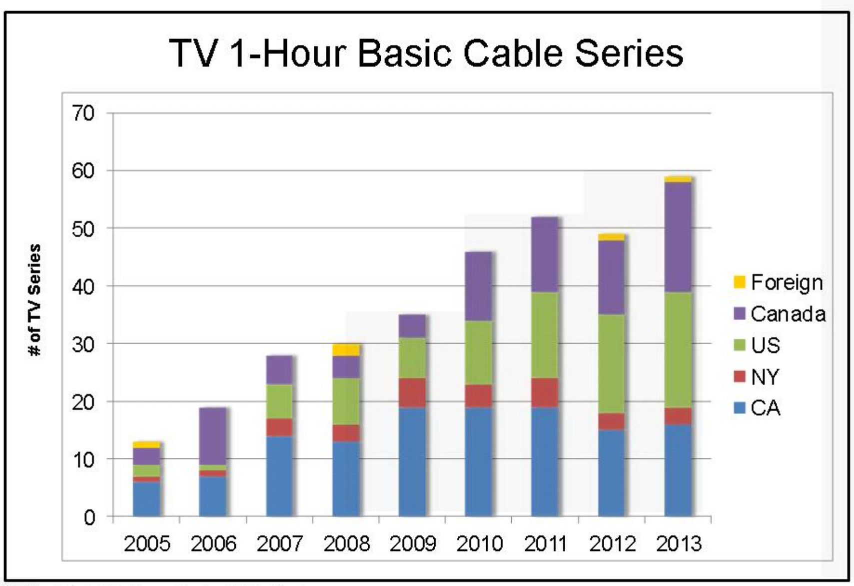


Table # 6 Source: California Film Commission

Most of the growth in 1-hour TV production is attributable to a year-after-year increase in basic cable production. The number of series produced in this category grew more than 350%, from just thirteen 1-hour basic cable series in 2005, to 59 basic cable series produced in 2013.

Despite the Program's success in keeping many basic cable series in state, California's market share of 1-hour basic cable series was just 29% in 2013 as New York and other U.S. states captured 39% of basic cable series production, while Canada hosted 32%. (See Table #6) Note that 1-hour TV series produced for networks are not eligible for the Program.

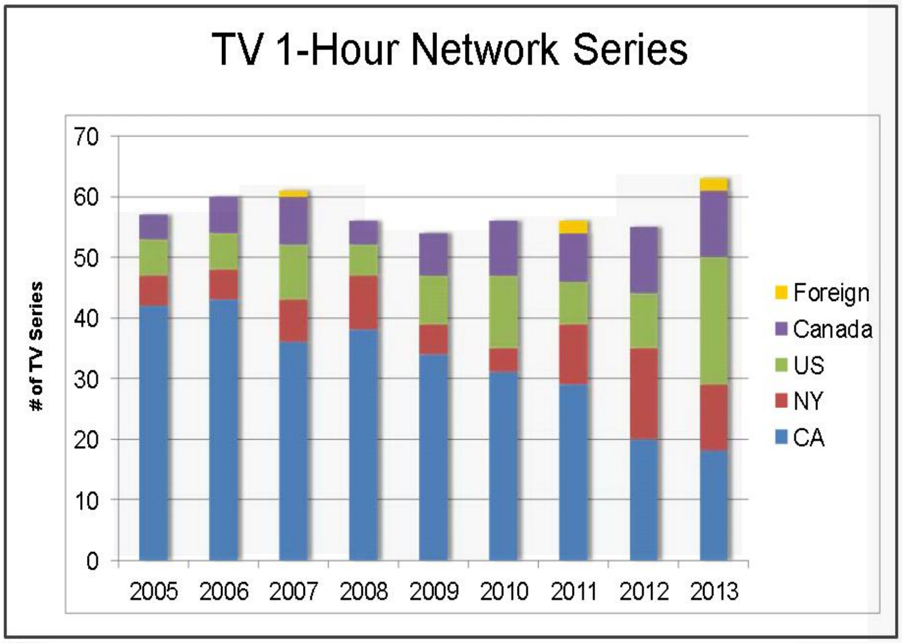


Table # 7 Source: California Film Commission

California has lost a significant share of these network TV series, suffering a dramatic 61% decline in market share, from 42 out of 57 (74%) network 1-hour productions in 2005, to just 18 out of 63 (29%) of network productions in 2013. Table #7 illustrates corresponding growth in out-of state network TV production.

XII. Local Filming and Economic Impact

While most California production activity occurs in the greater Los Angeles area, other regions across the state have seen significant economic impact from tax credit Program productions. A sampling of spending impact outside Los Angeles includes:

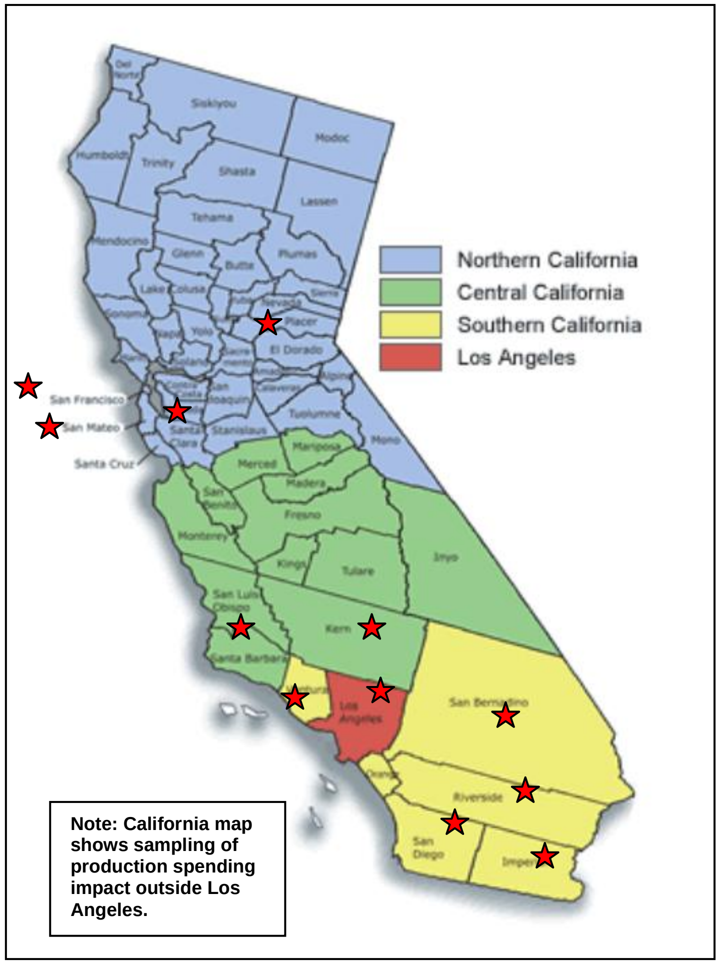
- **Alameda County**: In 2010 and in 2011, a feature film and an Emmy Award winning TV movie, *Hemingway & Gellhorn,* shot for several days in Alameda County. These productions were responsible for a total of $4,446,000 in local spending (including $2,276,000 in local wages, $203,000 at local hotels, and $240,000 for food/catering).

- **Imperial County**: In 2014, a Warner Bros. feature film, *American Sniper* and an independent feature film shot for several days in Imperial County. These two productions were responsible for a total of $817,000 in local spending (including $236,000 in local wages, $351,500 at local hotels, and $18,100 for food/catering).

- **Kern County**: In 2009 and 2010, two feature films shot for several days in Kern County. These productions were responsible for a total of $243,000 in local spending (including $68,000 in local wages, $111,800 at local hotels, and $9,800 for food/catering).

- **Placer County**: In 2010, a feature film shot for several days in Placer County. This production was responsible for a total of $79,000 in local spending (including $5,700 in local wages, $20,000 at local hotels, and $3,400 for food/catering).

- **Riverside County**: In 2011, a feature film shot for two weeks in Riverside County resulting in $251,000 in local spending (including $16,000 in local wages, $59,000 at local hotels, $41,000 for food purchases.)



Note: California map shows sampling of production spending impact outside Los Angeles.

- **Santa Barbara County**: In 2011, two feature films shot in Santa Barbara and were responsible for more than $410,000 in local spending (including $57,000 in local wages, $68,000 at local hotels, and $71,000 in location fees).

- **San Bernardino County**: Three feature films shot for several days in San Bernardino in 2010, 2012, and 2014, including *Argo,* the Academy Award Winner for Best Picture. These productions were responsible for nearly $1 million in local spending (including $107,000 in local wages, $355,000 at local hotels, and $30,000 for food/catering).

- **San Diego County**: In 2009-2010, a television series based its production in San Diego County, and a feature film shot for several days there in 2013. These productions contributed more than $17 million in local spending during the course of their shoots (including $10,508,000 in local wages, $586,000 at local hotels, and $389,000 for food/catering).

- **San Francisco**: In 2011, the Bay Area hosted a TV movie that filmed for 47 days, an independent feature that filmed for 22 days, and portions of a TV series. Together, these productions were responsible for more than $18.4 million in local spending (including $8,800,000 in local wages and $294,000 for food/catering).

- **San Mateo County**: In 2011, the feature film *Chasing Mavericks* shot for 35 days in San Mateo County, resulting in $1.5 million in local spending (including $495,000 in local wages, $160,000 at local hotels and $79,000 for food purchases.)

- **Ventura County**: In 2010 and 2011, several feature films shot extensively in Ventura County including *We Bought a Zoo* and *Water for Elephants*. These productions were responsible for a total of $6,438,000 in local spending (including $2,840,000 in local wages, $153,000 at local hotels, $142,000 for food/catering, and $1,036,000 for location fees).

California's Local Film Incentives

Many regions outside of Los Angeles have created local initiatives to attract film and television production.

Los Angeles

- Provides free use of any available, city-owned locations for filming.
- Entertainment Production Tax Cap - caps tax liability for production costs.
- Business Tax Exemptions are available for qualifying new businesses, small businesses, and creative artists. Reduced tax rates are available to motion picture production businesses.
- Creative Artist Tax Exemption - no tax is required to be paid by a person for gross receipts attributable to "Creative Activities".

Riverside County

- Waives all film permit fees in the unincorporated county.
- Free use of County owned properties for projects lasting 10 days or less.
- Waivers of transient occupancy taxes (TOT) when staying in participating hotels.
- **Palm Springs** offers a $5,000 grant available for qualified productions within the City of Palm Springs; permit fee waiver.
- **San Jacinto** – Waives film permit fees; no fees for filming on city-owned property.
- **Temecula** - No film permit fees.

San Francisco

- Offers a rebate program which refunds up to $600,000 on any fees paid to the City of San Francisco for a scripted or unscripted television episode or feature length film or documentary. This can include permit fees, payroll tax, up to 4 police officers per day, city owned locations, city owned production office and stage space, and street closures.

Santa Barbara County

- Launched a Media Production Incentive Program which provides a cash rebate to still photo campaigns, commercials, unscripted television, scripted television, and feature films.

Santa Clarita

- Offers a three-part film incentive program that refunds basic permit fees for locally based, recurring and California Film & Television Tax Credit Program approved productions.
- Provides partial refunds of Transient Occupancy (Hotels) Taxes.

XIII. Past and Pending Legislation

SB X3 15 (Calderon) / ABX3 15 (Krekorian) was enacted in 2009 to create the California Film and Television Tax Credit Program, which provided a five-year, $500 million tax credit to be administered by the California Film Commission.

AB1069 (Fuentes) was enacted in Oct. 2011 to provide a one-year extension to the California Film & Television Tax Credit Program through FY 2014-15. The original bill sought a five-year extension, but was reduced to one-year in the Senate.

AB2026 (Fuentes) was enacted in Sept., 2012 to provide a two-year extension to the California Film & Television Tax Credit Program through FY 2016-17. The bill sought a five-year extension, but was reduced to a two-year bill in the Senate.

SB1197 (Calderon), identical to AB2026, was enacted in Sept., 2012 to provide a two-year extension to the California Film & Television Tax Credit Program through FY 2016-17. The bill sought a five-year extension, but was reduced to a two-year bill in the Senate.

PENDING: AB1839 (Gatto) proposes to create a Film and Television Tax Credit Program for five years and would expand eligibility to include all 1-hour scripted television series regardless of distribution mechanism (network, premium cable, internet TV, etc.), big-budget feature films (but restrict credits to the first $100 million in qualified expenditures), and television pilots.

XIV. Global Competition and Threat to California's Motion Picture Industry

Today's business model for motion picture production continues to rely on tax incentives as a means to lower production costs. Financing for projects by independent production companies now requires the monetization of tax credits in order to raise necessary funds. Without incentives, most independent projects would not be produced. Therefore, the availability of tax credits has become the determining factor when it comes to where the vast majority of projects are filmed. Non-independent (or studio) productions also factor in tax incentives heavily when considering production locations, creating multiple comparison budgets to calculate net costs. In addition to international competition from Canada, Australia, the U.K. and most EU nations, nearly 40 U.S. states offer financial incentives to lure production and post-production jobs and spending away from California.

Threat to Infrastructure

Once such incentives take root in other states and countries, those locales effectively develop their long-term infrastructure with stage construction, post-production facilities and job training programs. For example, incentive-rich jurisdictions such as New Mexico, Louisiana, Massachusetts, Michigan, Toronto and Hungary have all built impressive multi-studio facilities over just the past few years. Construction was recently completed on a multi-studio facility in Georgia. Many of these regions have instituted education and training programs.

While production companies routinely relocate their relatively small creative teams (producers, actors, directors, writers) to another state for the duration of a film shoot, very few "below-the-line" crew members (drivers, camera technicians, carpenters, make-up artists) from California are hired. The few that work on-location out of state pay income tax in the work state. Furthermore, skilled California crew members end up training the local workforce so that fewer California workers are needed on subsequent film shoots. This process has helped create a pool of skilled local crews across the country and around the world.

Some film industry workers who cannot find work in California are relocating their families to incentive states, resulting in lost tax revenue and a steadily decreasing skilled labor pool. Some labor unions outside of California have seen exponential growth in membership. As reported by *Deadline Hollywood,* IATSE's (International Alliance of Theatrical and Stage Employees) local membership in Georgia has grown 1,100% since 2003; in Louisiana IATSE membership has grown 900% since 2003.

As a consequence, California continues to lose market share of film and television production spending and the related pool of skilled labor. Each year, competing states that offer incentives achieve dramatic growth in production spending. In recent years:

- Louisiana announced that production spending there topped $800 million in 2013 -- a nearly *800 percent* increase since the state introduced its incentive in 2003.

- Georgia has seen a 700 percent increase in production spending since its program began in 2005, with $930 million in production spending reported in 2013. Georgia Public Broadcasting reported in 2013 that the state's film industry created $3.1 billion in economic activity during 2012, which led to an estimated 5,000 directly-related jobs.

- New York has succeeded in attracting film and TV industry activity over the last decade. Sony Pictures Entertainment spent $150 million throughout New York state to produce *The Amazing Spider-Man 2* (including $44 million in wages to New York residents), which was touted as the largest production ever to be filmed in New York.

  According to Governor Cuomo's office, film and TV producers have spent more than $7 billion in New York since the state began offering tax credits in 2004.

- Production in the U.K. is booming in all sectors. Late last year, the government increased its tax credits for bigger-budget films, television production and visual effects. A July 2014 *Guardian* headline boasted, "*British film enters a new golden age as studios struggle to meet demand; The glory days of Pinewood and Elstree are back with film-makers flocking to make their next big hits in Britain.*" Pinewood Shepperton Studios, home of James Bond, announced that it nearly tripled profits last year and now plans to double its site with a £200m expansion.

  Confirming the U.K.'s success in attracting production, producers announced that the latest *Star Wars* multi-sequel franchise would be moving to London.

- New Zealand has grown into a major motion picture hub after the production of the *Lord of the Rings* trilogy and *Hobbit* series. The country has used generous tax breaks to lure a host of productions, including *Avatar,* whose director James Cameron recently announced three back-to-back sequels that will spend an estimated $1 billion in New Zealand.

Erosion of Large-Scale Feature Film Production

Perhaps the segment of entertainment production that has had the most detrimental affect on California's infrastructure is big-budget feature films (over $75 million). Each big-budget production employs thousands of workers and utilizes thousands more support businesses. They typically require the use of several very large sound stages for building complex sets.

In reviewing 30 live-action films released in 2013 with budgets in excess of $75 million (the Program limits feature films to budgets under $75 million), the CFC found only two that filmed primarily in California – *Star Trek into Darkness* and *Hangover Part III*. The other 28 films shot in regions where tax credits and other incentives were readily available. These projects included *Ironman 3* (North Carolina) , *Elysium* (Canada / Mexico), *The Lone Ranger* (New Mexico, Utah), *Wolverine* (Australia), *Man of Steel* (Canada), *Gravity* (U.K.), *Oz: The Great and Powerful* (Michigan), *Ender's Game* (Louisiana), and *World War Z* (U.K.).

Collectively, these large-scale film projects employed tens of thousands of well-paid skilled workers and represented several billion dollars in direct spending.

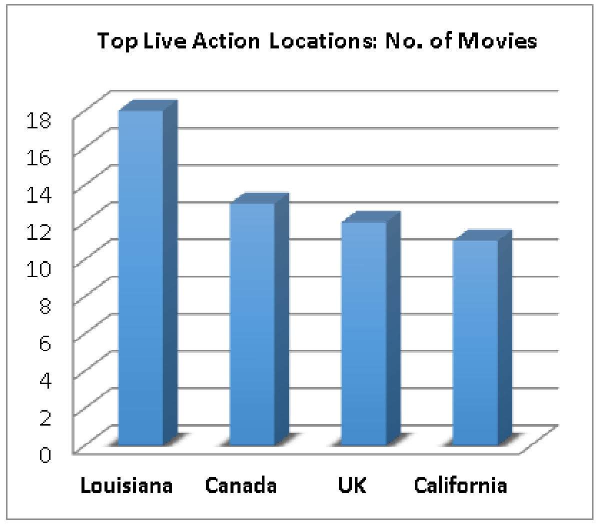
This trend has been particularly devastating for Northern California's film production community. <u>While all of the following films were set in San Francisco,</u> each filmed only a few days in the city:

- *Godzilla* (Vancouver, Canada)
- *Dawn of the Planet of the Apes* (Louisiana)
- *Big Eyes* (Vancouver, Canada / U.K.)
- *San Andreas* (Australia)
- *Terminator 5* (Louisiana)

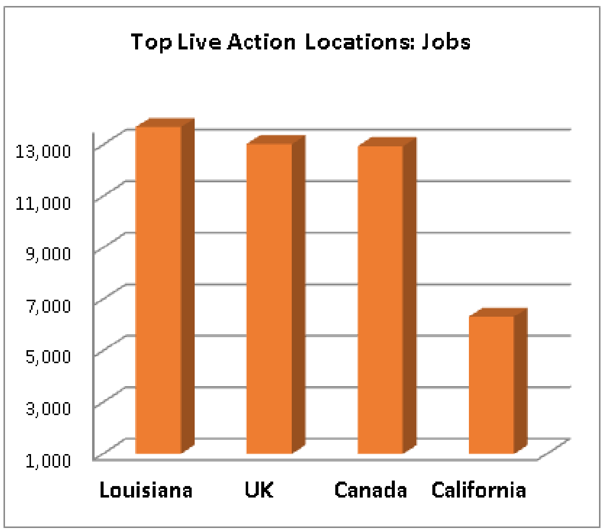
FilmL.A. Feature Film Production Study

FilmL.A., the not-for-profit film office serving the Greater Los Angeles region, released their 2013 *Feature Film Production Study* which analyzed a sample of 108 U.S. feature films that were released theatrically that year and identified where they were filmed, their production spending and number of jobs they created.

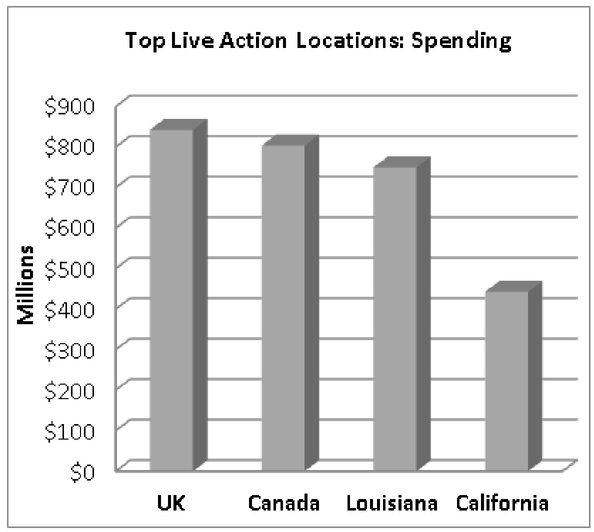
The report noted that in 2013, California ranked fourth behind Louisiana, Canada and the United Kingdom in total live-action feature projects, jobs and spending.



Source: FilmL.A.



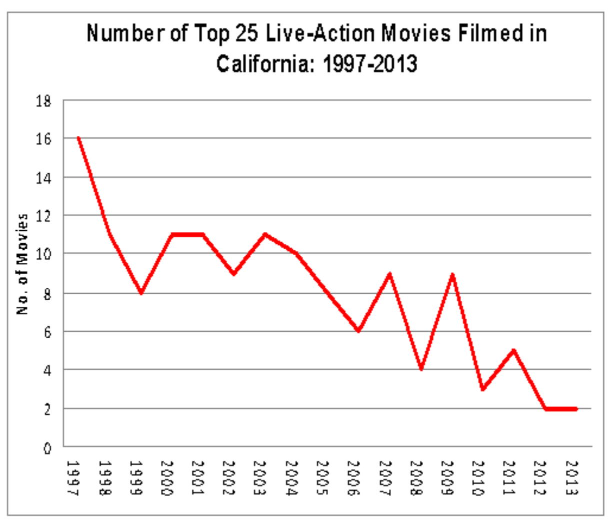
Source: FilmL.A.



Source: FilmL.A.

The report looked at the top 25 live-action movies at the worldwide box office. The combined budgets of the top 25 movies totaled more than $3.5 billion in 2013. FilmL.A.'s study also documented California's share of global feature film production which diminished from 64 percent fifteen years ago to just 8 percent in 2013.

http://www.filmla.com/data_reports.php



Source: FilmL.A.

California's Visual Effects Industry in Decline

In addition to luring a large portion of film production, many states and countries have enacted incentives which specifically target the visual effects industry. British Columbia, in addition to its provincial and federal tax breaks, provides an additional 17.5 percent credit on visual effects work produced in the province; Quebec provides an added 20 percent. According to a Motion Picture Association of Canada report, in 2009, Canadian provinces generated $260.7 million in revenue from visual effects work. In 2011, that figure rose to $435 million. U.S. companies, such as Sony Imageworks have relocated to Vancouver -- taking roughly 300 jobs with it.

The tax breaks in the U.K. are also siphoning off work and talent from California. ILM, a premiere Bay-area based visual effects company originally owned by George Lucas, opened a UK division, and is working to develop and train locals to handle the volume of work created by the *Star Wars* trilogy, as well as *Jurassic World, Transformers: Age of Extinction, Teenage Mutant Ninja Turtles, Tomorrowland, Warcraft,* Luc Besson's *Lucy* and Angelina Jolie's *Unbroken.* ILM also has divisions in Vancouver and Singapore.

California companies are having difficulty competing with foreign subsidies that offset visual effects costs. The result has been the scattering of California's visual effects community, with highly-skilled digital artists forced to chase jobs, often overseas. Nearly two dozen California visual effects firms have closed or gone bankrupt in the last decade. California is losing an industry that began here but can not be sustained due to abundant out-of-state competition and incentives.

Television Pilot Production

Production of television pilots, which are not currently eligible for the Program, have decreased considerably in California as indicated in a June 2014 report issued by FilmL.A. The analysis of the 2013/14 pilot cycle revealed that California captured just 17 percent of all 1-hour drama pilots. For the first time on record, New York hosted more 1-hour drama pilots than California, with 24 compared to just 19 pilots in California.
The full FilmL.A. *Television Pilot Production Report* can be found here:
http://www.filmla.com/data_reports.php

Employment Trends

A **Milken Institute** report released in Feb. 2014, *A Hollywood Exit: What California Must Do to Remain Competitive in Entertainment – and Keep Jobs,* noted that California's stronghold on the entertainment industry is loosening as production jobs are lured to other locations due to production credits and other tax breaks. The report's finding is sobering: "Between 2004 and 2012, the state lost more than 16,000 jobs in filmed production employment – a more than 10 percent drop. Meanwhile, New York, California's main rival, added more than 10,000 such jobs." The full Milken Institute report can be found here: http://www.milkeninstitute.org/publications/publications.taf?function=detail&ID=38801463&cat=resrep

In September 2012, the ***Los Angeles Times*** reported on data provided by Entertainment Partners, the market leader for entertainment production payroll processing.

> *"California lost $3 billion in wages from 2004 to 2011 because of film and TV production flocking to other states and countries, a new study concludes.*
>
> *Burbank-based Entertainment Partners, the industry's largest payroll service company, …. says its own research has found that California lost 90,000 jobs and saw its share of overall production wages in the U.S. decline 10% during the period as film producers took their business elsewhere."*
> Los Angeles Times, Sept. 18, 2012
> http://articles.latimes.com/2012/sep/18/entertainment/la-et-ct-onlocation-20120918

The research showed that about half the lost wages went to New York, Louisiana, New Mexico, and other U.S. states that offer film tax credits and rebates -- states that added 45,000 production jobs during the same period. The other half of the lost $3 billion went to Canada, Britain and other foreign countries.

Tourism, The Other Hollywood

Tourists worldwide have traditionally flocked to California to see first-hand the iconic images of "Hollywood" that they have seen in films and television programs. One example, *Sideways*, which filmed in San Luis Obispo and Santa Barbara counties in 2004, helped create a wave of tourism that still lingers. According to a 2009 *Los Angeles Times* article:

> "*In the wine country north of Santa Barbara, the global economic crisis has drained wine sales, sapped tourist spending and siphoned away hotel profits. But five years after the Santa Ynez Valley was featured in an Oscar-winning film, the region is still feeling the upside of "Sideways."*
> http://articles.latimes.com/2009/sep/03/business/fi-sideways3

However, with the increasing amount of production flowing to other locales, more and more states are capitalizing on film and TV locations to increase tourism.

In Albuquerque, New Mexico, an entire industry has arisen locally around *Breaking Bad*. Months after the show ended, tourists can find *Breaking Bad* hotel packages, specialty souvenirs and film location tours by foot, bicycle, trolley car and limo.

In Georgia, fans of the hit AMC series, *The Walking Dead,* can tour filming sites in the town of Senoia. The state also has launched a website that lists movie tours and travel tips, pitching an opportunity to "walk in the footsteps of your favorite actors and musicians." The Georgia Film & Music Office highlights points of interest with their *The Hunger Games: Catching Fire* tour.

XV. Conclusions

While California's modest tax credit program has been successful in retaining some productions, the state continues to experience a pronounced erosion of this signature industry. California still boasts a superior critical mass of state-of-the-art facilities, highly-skilled film crews, and the best talent, but this infrastructure is suffering from erosion.

Entertainment industry unions report high levels of unemployment among their members in the Golden State. Many businesses in California that support production have closed or been forced to lay off employees, while others have expanded their businesses out of state rather than investing at home. Many film industry workers and service providers report devastating income losses due to the large number of feature films and TV series relocating to other jurisdictions. California's visual effects industry has been in decline for years, unable to compete with companies in other states and countries that offer incentives.

It is clear that demand for California tax credits far exceeds supply. Without adequate funding for the Tax Credit Program, California will continue to lose direct spending and tax revenues from film and TV productions that choose to film elsewhere. The situation is especially dire for TV series production, given that producers are unlikely to film their first season in California without a reasonable assurance that tax credits will be available for future seasons.

The California Film and Television Tax Credit Program was designed to target those productions most at risk of leaving the state, while working within the annual funding limits. The program has succeeded in attracting its original target group: basic cable TV series, mid-sized feature films and made-for-TV movies. However, California continues to lose market share due to the limitations of the Program. The fact that these targeted projects leave the state when they are denied a tax credit is testament to the very real need for a competitive incentive program in order to retain and grow this signature industry.

Once the epicenter for entertainment production, California can no longer assume this leadership position. Maintaining California's worldwide leadership role as the 'entertainment capital of the world' is vital to the state's economy.

XVI. About the California Film Commission

The California Film Commission (CFC) was created in 1984 to enhance California's position as the premier location for motion picture production. The CFC supports the state's film, TV and commercial industry by providing necessary services and encouraging productions to film within the state. The CFC serves as the state's primary liaison between the film production community and all levels of government (including local, state and federal jurisdictions) to eliminate barriers to filming in the state.

The CFC supports the film, TV and commercial production industry by offering support services such as location and troubleshooting assistance, Film and TV tax credits for eligible productions, a one-stop permitting authority for the use of state-owned property for film shoots, an extensive digital location library and a range of other production-related resources and assistance.

The main goal of the CFC is to encourage a business-friendly environment across the state for productions of all sizes, and to enhance the economic climate in California by increasing the number of film and TV productions and keeping crucial film industry jobs in the state.

The CFC works in conjunction with more than 50 local in-state film offices or commissions on film-related issues and specific filming requests from the industry. The partnership between the CFC and local "Regional Film Partners" is an integral part of the CFC's ongoing effort to enhance California's position as the premiere location for film, television, and commercial production.

Appendix

Supplemental Reports re: California Tax Credit Program

Two earlier studies analyzed the return on investment from California's Film and Television Tax Credit Program:

Los Angeles Economic Development Corporation (LAEDC)
In June 2011, the Los Angeles Economic Development Corporation (LAEDC) released a study to determine the economic impact of the tax credit program. The study analyzed the first 77 productions approved for tax credits totaling nearly $200 million. The executive summary states:

> *"During the first two years of the program, California's Film and Television Tax Credit has generated more than $3.8 billion in economic output and is supporting more than 20,000 jobs in California.*
>
> *For every tax credit dollar approved under California's Film and Television Tax Credit program, at least $1.13 in tax revenue will be returned to state and local governments."*

The full study is available at: http://www.film.ca.gov/2011_Reports_&_Studies.htm

Headway Project/ UCLA Institute for Research on Labor and Employment
In Feb. 2012, another report (conducted by The Headway Project in collaboration with the UCLA Institute for Research on Labor and Employment) reviewed the methodology and results of the 2011 LAEDC report. The Headway/UCLA report made adjustments, based on more recent data, and determined that for every dollar in tax credits issued, $1.04 in state and local tax revenues will be returned - rather than $1.13 as indicated in the LAEDC study. Regardless of which report is referenced, the Program has been determined to generate a positive return on investment. The full Headway/UCLA report is available at: http://www.headwayproject.org/downloads/Headway_Entertainment_Report.pdf.

California's Motion Picture Industry

- The motion picture industry is an essential source of economic activity, tax revenue, jobs and tourism in California. It contributes $30 billion annually to our state's economy while supporting 160,000 well-paying entertainment industry jobs that provide health benefits. (Source: Employment Development Department and Motion Picture Association of America – MPAA)

- The average shooting cost for a feature film or TV series ranges from $100,000 to $300,000 per day. That's actual dollars that each production spends on wages, groceries, hotel rooms, gas, building supplies, props, payroll, etc.

- A typical film shooting outside of Los Angeles County will spend an average of $50,000 per day in the local community. (Source: Association of Film Commissions International - AFCI)

- The national average annual salary for production employees is $89,000 -- well above the national private-sector average. (Source: Legislative Analyst's Office)

- This industry is dominated by small businesses – 80% of entertainment companies employ fewer than 10 people. (Source: MPAA)

- An average $70 million feature film generates $10.6 million in state sales and income taxes. (Source: Los Angeles Economic Development Corp. - LAEDC)

- The motion picture industry is the fifth highest ranking employer in Southern California. (Source: Los Angeles Economic Development Corp. - LAEDC)